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Report Highlights:

Total citrus production in MY2001 dropped to 600,000 mt from a planted area of 18,450 ha. Estimated exports totaled 163 tmt. The sector's volume of production and exports is rapidly dropping towards the critical size below which they can no longer support major export infrastructure and facilities. Farmers refrain from renewing investments because of the chronic low profitability of the crop.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Executive Summary

In MY2001 the size of the citrus industry continued to shrink and can be expected to do so in MY2002. Total production reached 600 thousand mt. Out of the total of 600 tmt that were picked and marketed, 163 tmt were exported. Almost 300 tmt were delivered to the processors and 144 tmt was consumed fresh. A general shortage of fruit in the export market, which generated good prices for fresh Israeli exports and relatively good prices for the processed fruits, and rains in the course of the picking season raised grower expectations. A hailstorm in the middle of the export season dampened all hopes. It harmed the quality of the unpicked fruit and reduced the quantity suitable for export. The economic importance of Israel's citrus industry is declining steadily: its share of total agricultural production value has dropped from 8.1% in CY1990 to 5.3% in CY2001. Its share of total exports (excluding diamonds) fell from 2.1 percent in 1990 to less than 0.4 percent in 2001. Bearing fruit area in crop year 2002 will be smaller by 30% than that in 1997. The area in crop year 1997 totaled 23,600 hectares. Crop year 2001 saw this shrink to 18,450 hectares. Yield per hectare in MY2001 was 15 percent lower than in MY1997.

Lack of Spanish fruit, mainly tangerines, in Europe and in the US helped to raise the price for Israeli citrus by 5-8 percent in local currencies. Accelerated devaluation of the new sheqel towards the European currencies and the dollar, which started in December 2001, improved the farm gate price for exports. Total export income did not exceed the MY2000 figure due to the high proportion of culls. Prices for processed citrus, which are quoted in dollars, were similar to those of the previous year, but the higher exchange rate increased the price in sheqels for processed fruit by 9.4 percent. Average consumer price for fresh oranges, grapefruit and tangerines in the domestic market was 12 percent higher than in the year before. The trade estimates that total farm gate income per hectare for MY2001 is 5-10 percent higher than in MY2000. Due to increased production cost (mainly water and labor) the improved revenues did not raise farmer profits significantly. Continuing low profitability, together with aging orchards and continuing water shortage problems, can be expected to be the key causes of increased uprooting of citrus orchards. The coming summer will see the abandonment of 1,000 to 1,500 ha, which will reduce total fruit bearing area to approximately 17,000 ha and total area under citrus to 18,000 ha. This is on the borderline of being unable to support the logistic and marketing infrastructure of a viable export oriented industry. Most uprooted area will consist of Sweetie, white and red grapefruit and Shamouti oranges.

Precipitation during winter 2001/02 was 10% higher than the long term average. It reduced the need for irrigation during the spring of 2002 but did not change the long-term policy of the government of reducing the water quota for orchards by 50 percent. What's more, the price of water for the agricultural sector rose by 46 percent to NS 1.40 per cubic meter. This was part of the new agricultural policy which aims to raise water prices for agriculture to the real marginal cost of supply and compensate the farmers with a fixed payment for each cultivated hectare, according to the crop grown.

Increased quantities of sweetie, from maturing plantations put pressure upon the exporters but, despite

efforts to expand demand and open new markets, sales declined relative to previous years. In 1999 the planted area of Sweetie totaled 2,200 hectares. CY2002 will start with only 1,200 ha of which 1,100 is fruit bearing.

MY2001 was the first export season in which the merged export company of "Mehadrin" and "Tnuport" was active. The new company dominates 70 percent of all citrus exports. The third company, "Agrexco", is considering joining forces in the coming export season despite the objection of the growers to the growing monopsonistic power of the new giant.

The main problem of Israel's citrus industry, and what will determine its eventual size, is neither the water problem nor the lack of manpower, but the continuing low profitability. Low profitability is primarily a result of the steadily increasing competition from other countries, mainly Spain and Morocco. Lack of citrus concentrates in international markets, mainly grapefruit, has increased the processing industry's demand for fruit, raising the price offered for diminishing quantities. While the total profitability of other species will be only slightly affected by the increased price for processed fruit, the grapefruit industry has become the most profitable branch in the sector.

Long Term Outlook

In the future the citrus industry can be assumed to shrink to the size that will satisfy local fresh demand and the reduced needs of the processing industry. Exports can be expected to be aimed at specific niches in the foreign markets. Planted area may drop to as little as 7,000 to 10,000 ha due to low profitability.

Table 1: Summary Table of Citrus Production and Disposition: MY 1998-2001
Thousands of Metric Tons

Species	Market Year	Total Production	Total Exports	Delivery to Processing	Fresh Consumption
Oranges	1998	267	103	59	105
	1999	327	89	142	96
	2000	225	71	85	69
	2001	190	55	65	70
Grapefruit	1998	283	103	160	20
	1999	259	98	141	20
	2000	250	71	159	20
	2001	215	60	135	20
Easy Peelers	1998	82	29	18	35
	1999	120	35	45	40
	2000	86	30	26	30
	2001	85	29	21	35
Lemons	1998	14	0	1	13
	1999	18	1	2	15
	2000	16	0	1	14
	2001	17	1	1	15
Sweetie	1998	45	20	24	1
	1999	65	23	39	3
	2000	70	23	43	6
	2001	82	16	64	2
Other	1998	10	9	0	1
	1999	11	8	0	3
	2000	15	9	0	6
	2001	11	2	7	2
Total Citrus	1998	702	264	263	175
	1999	800	254	369	177
	2000	662	204	314	144
	2001	600	163	293	144
Forecast Total	2002(*)	545	166	233	146

Source: Citrus Marketing Board of Israel (CMBI) annual publications. 2001 - the figures are based on CMBI weekly summary and estimations by MOA

*Based on forecast by citrus Grower Organization and CMBI

Production

Production totaled 600 tmt in MY2001, 60 tmt less than in MY2000, and 200 tmt less than in the previous year.

Planted Area

During the late spring of 2001 some 4,200 ha were uprooted. Total planted area at the beginning of MY2001 was 19,430 of which 18,450 were bearing. At the time of this report (May 2002) uprooting of another 1,600 ha is under consideration. Forecasts indicate that MY2002 will start with a total planted area of 17,800 ha of which 16,700 are fruit bearing. The main uprooted varieties include Sweetie, some "white" grapefruit and Shamouti oranges, mainly in the family farm sector.

The industry is rapidly approaching its "critical mass" below which it will be impossible to maintain all infrastructure and supporting systems, packing houses, transport fleets, processing plants, etc. Actually, five packinghouses were closed in 2001 and two export companies (out of three) merged in order to adjust to the decreased size of production. Due to expanded processor demand for white grapefruit, MOA and CMBI sources think that the area under white grapefruit has reached its minimum level and uprooting of this variety can be expected to stop, at least for the near future.

A census conducted by the CMBI at the beginning of CY2001 indicated the following distribution of the planted area by species and by age.

Table 2: Distribution of Planted Area by Age and Species -%

Variety	Total	0-5 years	6-34 years	35-65 years
Oranges	34	4	27	68
Grapefruit	32	4	61	29
of which: Sweetie	9	47	53	0
Tangerines	24	31	65	3
Lemons	6	30	57	13
Other Citrus	4	26	65	9

Source: CMBI census, 2001.

The average age of the Israeli orchards is very high: nearly 70 percent of the bearing trees are over thirty-five years old, mainly the Shamouti, grapefruit and the Valencia. The old orchards are characterized by low yields, high sensitivity to many kinds of pests and diseases and by low quality. The continuing low profitability of citrus discourages farmers from replanting the old orchards.

Production Conditions

Production conditions in the spring and summer of 2001 were good, yielding a long term average yield per hectare which was almost 10 percent higher than in the previous season. Then, a hail storm in mid January damaged the fruit and raised the percentage of export culls from 65 percent to 73 percent.

Production Problems

Israel's chronic water shortage and the increased price of water has had a serious effect on production and production decisions in recent years. Aging groves and declining average yield in Shamouti and Valencia are main causes of consistent losing seasons. Average yields of less than 40mt/ha cannot yield profits even with the current season's higher farm gate prices. Continuous drought in the Middle East accentuated Israel's water problems. The government cut water quotas for some field crops by almost 70 percent and in many orchards by 50 percent. Recently the water charges were raised by 48 percent over the previous season. This was part of a new policy, "The Policy for Preservation of Green Areas". The plan was adopted by the MOA which intends to raise the price of water to agriculture to its real cost of supply. The real marginal price was calculated as NS 1.46 per cubic meter. The growers will be compensated by a fixed payment per cultivated hectare, in accordance with what they grow, field crops or fruit orchards, irrigated or unirrigated cultivation. It became clear to key people in the industry, as well as to the growers, that the continuing low profitability, which appears to be permanent, has become a strategic danger to the citrus industry. This problem, which mainly derives from marketing conditions abroad, deters the growers from investing in replanting or in new water systems. In the future, irrigation of citrus orchards will be permitted only with recycled water. Since the quantities of recycled water are also limited, citrus will have to compete with other crops if it is to continue to survive. Several analysts expect that the citrus industry will fail to compete due to low profitability. Manpower was not a significant problem for the citrus industry, in this year.

R & D

Ineffective R & D has been blamed as a key factor in Israel's export problems. For years it failed to offer new varieties that fit the changing demand in foreign markets. The absence of new varieties of easy peelers was especially noted. The most successful of those developed is the "Or", which reportedly showed great success in the US market. Other R & D targets include yield increase, resistance to high salinity in recycled water, natural immunity against pests and diseases and biological pest control.

Profitability

Profitability of the citrus industry in MY2001 improved by 6 percent over MY2000: average yield per hectare is more than 9 percent higher and the average farm gate price in NS terms was approximately 3 percent higher than in MY2000. The result could have been better if the exportable percentage had not been reduced by the hail storm in the middle of the export season. According to CBS, input prices for field crops and orchards rose by 5.2 percent in 2001. The main increases were in the cost of pesticides, fertilizers and labor. The improvement in profitability in 2001, which is exceptional in recent years, will have only a slight effect on slowing the declining trend observed in the throughput of the industry.

Consumption

Domestic consumption of fresh citrus is estimated by the CMBI at nearly 170 tmt as a long term average. This traditionally included 20 tmt, which were exported to the Palestinians. In MY2001, a shortage of citrus was felt in the market despite the fact that Palestinians reduced their citrus purchases significantly. The shortage in the domestic market raised the consumer price by almost 12 percent over its price in MY2000. Total consumption of fresh citrus in

MY2001 is estimated at 144 tmt, similar to the previous year. The annual processing capacity of the three processing plants is about 500-600 tmt. The drop in total production also has affected the processing plants which in recent years had been receiving only 300 tmt, compared to 500-700 tmt in previous years. It is expected that in MY2002 the total quantity for processing will be between 230 and 240 tmt. Shortage of raw material has forced the processors to concentrate on the production of high value added products. The high quality of the Israeli citrus enables them to produce a broad variety of products including fresh and frozen juices, highly sophisticated essential oils and expensive aromatic food supplements. The shortage of citrus is felt mainly in white grapefruit. It induced processors to offer higher prices for grapefruit for processing than in the past. The processors also have learned to

utilize the Sweetie efficiently and took delivery in MY2001 of 64,000 metric tons - four times more than was exported and roughly one third of all grapefruit processed.

Trade

Spain, Israel's biggest competitor, lacked citrus in MY2001, mainly tangerines for the American market. The market in Europe was also open to Israeli citrus. It was an opportunity for Israeli exporters to increase their market share. Actually, exports in MY2001 ended an estimated 10 percent lower than in 2000 and more than 35 percent below MY1999. The reasons were discussed above, mainly a smaller crop and hail damage which seriously affected quality. Western Europe's share of Israel's citrus exports for many years was as high as 70 percent of the total. It is dropping steadily, reaching 41 percent in MY2001. This is eleven percent less than in MY2000. Israel channeled exports previously shipped to Europe, to Japan, Eastern and Central Europe and the former Soviet Union (FSU). Israel's exports to the U.S. grew in MY2001 as Spain was unable to muster its usual quantities. Israeli exporters mainly shipped easy peelers to the markets of the Eastern US. Despite strenuous efforts to expand Sweetie exports sales volume was low. Only a few years ago the Israeli exporters planned to export 3 million boxes of Sweetie, mainly to Japan. Exports to the Japanese market are dropping from season to season. At their peak, Sweetie exports to Japan totaled 1.4 million boxes. MY1999 ended with 1.24 million, and in MY 2001 only 743 thousand boxes were shipped to Japan. Another 398 thousand boxes were exported to China, South Korea, Russia and Western Europe. Hopes for a new market in the Arab countries in the region, mainly in the Gulf, whose inhabitants are know citrus consumers, are being kept on the back burner due to the political situation in the region. Approximately 10,000 metric tons were sold to the Palestinian Authority - half the usual quantity. In MY2002, the Palestinians completely stopped buying, due mainly to the unsettled political situation. For general geographic distribution of Israel's citrus exports, see Agricultural Report #IS1011.

Table 3. Fresh Citrus Exports by Main Groups: October - mid April

Thousand of Boxes

Variety	MY 2001	MY 2000	MY 1999	% change 2001/2000	% change 2001/1999
TOTAL	8,889	11,731	14,250	-24	-38
Shamouti	1,532	2,902	3,421	-47	-55
Valencia	542	554	283	-2	-92
Navel, Trovita	53	99	197	-47	-73
Total Oranges	2,127	3,555	3,901	-46	-44
White	576	770	1,512	-25	-62
Red Blush	0	0	35	-	-100
Sunrise	2,197	2,750	3,716	-20	-41
Ray Ruby	4	40	33	-90	-88
Sweetie	1,141	1,672	1,649	-32	
Total Grapefruit	3,918	5,232	6,945	-25	-
Easy Peelers	2,026	2,133	2,639	-4	-22
Others	771	807	722	-4	+7

Table 4. Citrus Exports to the European Union to the Third Week of March 2002

Metric Tons

Variety	Total Exports	Of which to EU	% of variety 01	% of variety in 2000
Oranges	25,920	18,144	70	78
White grapefruit	7,616	2,053	27	45
Red	27,146	10,700	39	49
Sweetie	15,975	5,580	35	28
Total Grapefruit	50,737	18,333	37	48
Easy Peelers	31,239	9,291	30	56
Lemons	216	162	75	0
Others	6,435	1,211	19	0
Total	114,547	47,141	41	52

Source: Citrus Marketing Board of Israel.

Policy

The citrus industry has suffered losses in most of the years of the past decade because of both natural disasters and economic problems. Various solutions were offered to cure the industry's many illnesses. The main plan concerned the replanting of 10,000 ha mainly in the south. Others proposed to renew water systems to enhance utilization of recycled water. All these plans were backed with offers of appropriate governmental assistance. Farmers proved loath to invest in what appeared a risky proposition and eventually the government canceled the program. The decline in the importance of the citrus industry and the reduced production volume makes it easier for the policy makers to let things happen without their intervention. Long term plans that were supposed to solve long term problems of

the industry were abandoned recently. It seems that the growers too have finally accepted the idea that theirs is a declining industry and it is doomed to shrink further.

Marketing

Marketing is the citrus grower's main problem, caused mainly by the steadily growing competition from Spain, Morocco and other exporters to Europe. Recently, Turkish grapefruit has been penetrating markets in France and Germany and receiving better prices than the Israeli fruit. More and more policy makers see it as an insoluble problem because it is connected with external factors over which Israel has no control. Israeli salesmen who had cultivated relations of trust with traditional wholesalers are now facing the new methods introduced by the European retail chains which depend on category managers, year round supplies and the need for new varieties and growing quantities. Israel's dwindling quantities and the lack of a broad variety of products, mainly significant quantities of good easy peelers, makes it difficult for the Israeli exporters to respond to the needs of the category managers.

The three main Israeli exporters: "Mehadrin", "Tnuport" and "Agrexco" are aware that with individual marketing efforts they lose leverage with the buyers. In order to improve their position versus the big importers, "Mehadrin" and "Tnuport", who control almost 70 percent of Israel's citrus exports, decided to merge and to market together. The merger took place in August 2001. MY2001 was the first export season in which the common company was active. The two companies concluded that first season as a success. In the past they suffered heavy losses. During MY 2001 they closed two packinghouses (out of seven) and released some 60 employees at their respective headquarters. They expect the first year to end balanced and that they will start earning profits in the next season. In order to reduce export costs and in order to improve their position, the common company is cooperating with a Spanish exporter who receives the citrus from Israel in bulk and repacks it to order for the retail chains of Europe.

PSD Table - Oranges

Country: Israel

Units: Thousands of Metric Tons

	Revised	1999	Prelim.	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begins		10/1999		10/2000		10/2001
Area Planted	9400	9400	7000	7000	6000	6000
Area Harvested	9150	9150	6950	6950	5900	5900
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total No. of Trees	0	0	0	0	0	0
Production	327	327	225	225	220	190
Imports	10	10	0	0	0	5
TOTAL SUPPLY	337	337	225	225	220	190
Exports	89	89	71	71	77	55
Fresh Domestic Consumption	96	96	69	69	70	70
Processing	152	152	85	85	73	65
TOTAL DISTRIBUTION	337	337	225	225	220	190

PSD Table - Orange Juice

Country: Israel

Units: Thousands of Metric Tons

	Revised	1999	Prelim.	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begins		10/1999		10/2000		10/2001
Delivery to Processors	152	152	85	85	73	65
Beginning Stocks	0	0	1	1	9	15
Production	74	74	43	52	47	41
Imports	15	15	35	50	50	45
TOTAL SUPPLY	89	89	79	103	106	101
Exports	62	62	50	51	54	35
Domestic Consumption	26	26	20	37	45	50
Ending Stock	1	1	9	15	5	16
TOTAL DISTRIBUTION	89	89	79	103	104	101

PSD Table - Fresh Grapefruit (incl. Sweetie)

Country: Israel

Units: Thousands of Metric Tons

	Revised	199 9	Prelim.	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begins		0/1999		10/2000		01/2001
Area Planted	8700	8700	8110	8110	5900	5900
Area Harvested	7900	7900	7310	7310	5700	5700
Bearing Trees	0	0	0	0	0	0
Non- Bearing Trees	0	0	0	0	0	0
Total No. of Trees	0	0	0	0	0	0
Production	324	324	322	320	320	297
Imports	5	5	0	0	0	5
TOTAL SUPPLY	329	329	322	320	320	297
Exports	121	121	95	95	98	76
Fresh Domestic Consumption	28	23	25	25	27	22
Processing	180	185	202	200	195	199
TOTAL	329	329	322	320	320	297

DISTRIBUTION						
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PSD Table - Grapefruit Juice (including Sweetie)

Country: Israel

Units: Thousands of Metric Tons

	Revised	1999	Prelim.	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begins		10/1999		10/2000		10/2001
Delivery to Processors	180	180	119	202	102	199
Beginning Stocks	2	2	0	0	11	28
Production	73	73	52	103	46	101
Imports	40	40	45	25	40	15
TOTAL SUPPLY	115	115	97	128	97	144
Exports	105	105	68	83	75	105
Domestic Consumption	10	10	18	17	18	23
Ending Stock	0	0	11	28	4	16
TOTAL DISTRIBUTION	115	115	97	128	97	144

PSD Table -Fresh Tangerines

Country: Israel

Units: Thousands of Metric Tons

	Revised	1999	Prelim.	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begins		10/1999		10/2000		10/2001
Area Planted	5640	5640	5932	5932	5000	5000
Area Harvested	4400	4400	5132	5132	4900	4900
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total No. of Trees	0	0	0	0	0	0
Production	120	120	86	86	96	85
Imports	0	0	0	0	0	0
TOTAL SUPPLY	120	120	86	86	96	85
Exports	35	35	30	30	36	29
Fresh Dom. Consumption	45	40	30	30	33	35
Processing	40	45	26	26	27	21
TOTAL DISTRIBUTION	120	120	86	86	96	85

PSD Table -Tangerine Juice

Country: Israel

Units: - Thousands of Metric Tons

	Revised	1999	Prelim.	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begins		10/1999		10/2000		10/2001
Delivery to Processors	40	45	26	26	27	21
Beginning Stocks	2	2	1	7	4	6
Production	22	24	14	14	15	11
Imports	20	20	25	20	20	25
TOTAL SUPPLY	44	46	40	41	45	42
Exports	28	28	24	22	20	25
Domestic Consumption	15	11	12	13	12	13
Ending Stock	1	7	4	6	13	4
TOTAL DISTRIBUTION	44	46	40	41	45	42

PSD Table -Fresh Lemons

Country: Israel

Units: - Thousands of Metric Tons

	Revised	1999	Prelim.	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begins		10/1999		10/2000		10/2001
Area Planted	1200	1200	1150	1150	1700	1700
Area Harvested	1150	1150	1100	1100	1250	1250
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total No. of Trees	0	0	0	0	0	0
Production	18	18	16	16	17	17
Imports	0	0	0	0	0	0
TOTAL SUPPLY	18	18	16	16	17	17
Exports	1	1	0	1	1	1
Fresh Dom. Consumption	15	15	15	14	14	15
Processing	2	2	1	1	2	1
TOTAL DISTRIBUTION	18	18	16	16	17	17

PSD Table -Fresh Citrus, Other

Country: Israel

Units: Thousands of Metric Tons

	Revised	1999	Prelim.	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begins		10/1999		10/2000		10/2001
Area Planted	1700	1700	1420	1420	830	830
Area Harvested	1300	1300	1300	1300	700	700
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total No. of Trees	0	0	0	0	0	0
Production	11	11	11	15	13	11
Imports	0	0	0	0	0	0
TOTAL SUPPLY	11	11	11	15	13	11
Exports	8	8	5	9	9	2
Fresh Domestic Consumption	3	3	6	6	4	2
Processing	0	0	0	0	0	7
TOTAL DISTRIBUTION	11	11	11	15	13	11

